



OFFICE OF THE COUNTY MANAGER

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Board of County Commissioners
Citizens of Larimer County

SUBJECT: Proposed 2016 Revised and 2017 Larimer County Budgets

Dear Larimer County Commissioners and Citizens:

As specified in policy adopted by the Board of County Commissioners, it is the responsibility of the County Manager to prepare a proposed budget for presentation to the Board, based on the Board's expressed priorities and direction. The 2016 Revised and 2017 Proposed Larimer County budgets were both prepared in compliance with state statute, generally accepted accounting principles, funding agency requirements, and the budget priorities and direction of the Board of County Commissioners.

Larimer County government includes multiple divisions and departments under the ten elected county officials established by the Colorado constitution. Each of the departments provides a collection of services to citizens. The vast majority of county services are provided without regard to municipal boundaries: city residents receive the same level of service as those living in unincorporated areas. This budget is organized into five outcome categories that describe the type of services delivered. Most of the service types include contributions from multiple elected offices. The outcome categories are:

- Public Safety Services
- Human and Economic Health Services
- Community Resources, Infrastructure, and Planning Services
- Public Records and Information Services
- Strategic Leadership and Administrative Services

Combined, these services constitute the County's net operating budget. In addition, the budget includes a group of Non-Operational Governmental Accounts that are necessary to track various financial activities of County government. These include transfers between departments and funds, reserve funds for self-insurance needs, and taxes collected and distributed to other entities. The County maintains a group of reserve funds that act very much like savings accounts do in household finances. When the County pulls resources out of reserve accounts to cover expenses in a given year, it inflates the budget by double-counting the transactions involved in the internal transfers. That is, when money is drawn from a fund, it is budgeted as activities of that fund. The same money is spent on services by the department and those expenses are reflected in the budget for the department. This double counting is necessary for financial accounting audit purposes and it has been addressed in the budget by using Non-Operational Governmental Accounts as a category of activity.

THE 2017 BUDGET PROCESS AND GUIDELINES

Larimer County conducts a citizen survey in odd numbered years. The survey conducted in the spring of 2015 tallied high marks for the quality of County services. The survey asked citizens to rate both the importance of various county services and the adequacy of their delivery. When rating the importance of all county services, over 86% of responding citizens consider the services provided to be Important or Highly Important. Only 11.5% of the responses were Not so Important. When combining all countywide services, a majority of respondents rated them as being Adequate or Better Than Required (55%) and 8% being performed Inadequately. Thirty-seven percent reported “don’t know”, suggesting that citizens did not have a basis for providing an evaluation. Information from the citizen survey was considered by the Commissioners when establishing 2017 budget guidelines. Maintaining and improving high levels of service to Larimer County citizens was emphasized by the Commissioners as an important goal and was carried out using a process of collecting and vetting departmental requests for extra funding using service proposals. These are discussed in more detail beginning on page 5 of this letter. The 2017 budget includes funding under a service proposal to conduct another citizen survey during the year.

Future revenue and expense projections were generated using different sets of assumptions. These studies included modest increases in expenses to keep up with cost-of-living growth and various scenarios for changes in revenues through 2021. The models were used by the Commissioners to establish budget guidelines for 2017. The guidelines allowed for a 3% increase in non-labor operational expenses, excluding disaster-related expenses. Because the County is lagging behind in its goal to pay the market average for wages, raises were budgeted to increase by an average of 3.5%. The Commissioners try to keep staff salaries at or near levels benchmarked against other government employers to manage turn-over and attract and retain high quality staff members.

The Proposed 2017 budget was prepared prior to the General Election on November 8, 2016. The County Commissioners placed two questions on the ballot that, if approved, will impact the adopted 2017 budget. The first is a proposal for a 0.25% sales tax (2½¢ on \$10) to be collected county-wide for 25 years to fund the construction and operation of a behavioral health facility. The facility will fill the unmet needs gap in the community for assessments and treatment of mental illness and substance abuse. If the measure passes, the tax will commence on January 1, 2017 along with planning and design of the facility. The other measure on the ballot is a request to remove the statutory restriction on the ability of the County to provide or participate in providing high speed broadband services. If this ballot measure is approved by the voters, the County may proceed in 2017 with feasibility studies and/or public outreach to better understand service options and gather citizen input.

HIGHLIGHTS OF THE PROPOSED 2017 BUDGET -- REVENUES

Projected Property Tax Growth: The primary source of revenue for the County’s General Fund is property tax. Most of the property tax collected by the County is distributed to other entities, most notably school districts. Portions of property tax also go to municipalities and various special districts. The County’s share is approximately 25% of the total property tax collected. Colorado property tax law requires County Assessors to conduct countywide reappraisals of property every two years in odd-numbered years. Property taxes based on these updated assessed values are collected in the following year. Because of this reoccurring two-year cycle, property tax revenues for the County do not change

significantly year over year in odd-numbered years, such as 2017. The estimated increase in County property tax collected in 2017 is 4% more than was received in 2016.

The County's operating mill levy has been 21.571 mills since 1992, and will not change in 2017. The County's operating mill levy is divided between General Fund, Road and Bridge, Human Services and Health and Environment. An additional 0.75 mills are collected and transmitted by the County for Foothills Gateway which provides services to the developmentally disabled.

Projected Sales Tax Growth: There is not a sales tax in Larimer County that contributes directly to the County General Fund. Instead, the County collects three small dedicated sales taxes that fund specific services. A 0.15% (1½¢ on \$10) sales tax was extended by the voters in 2014 to support operations at the County jail. This tax currently generates enough revenue annually to cover approximately 37% of the jail's operational expenses.

A quarter cent (0.25%, 2½¢ on \$10) sales tax currently funds open space and was set to expire at the end of 2018. A portion of the revenue from this tax is shared with municipalities. A question to extend this tax was on the November 2014 ballot and was passed by the voters. There is also currently a 0.15% (1½¢ on \$10) sales tax that funds construction and operation of the county's fairgrounds facility, The Ranch. It expires at the end of 2019 which will necessitate identifying an alternate source of revenue to support the service and facility.

Sales tax collections exceeded the amounts predicted in the adopted budget during 2016 and are projected to grow in 2017 above the level predicted in the revised 2016 budget by an additional 1.4%. The additional revenue generated will be invested in each of the departments/offices receiving the funds for the purposes specified in the voter approval.

Grants from State and Federal Programs: Funding from State and Federal sources that support Human Services, Workforce Center, Health and Environment, and Criminal Justice services have fluctuated, but have not increased at the same pace as demand for services. For example, the allocation the County receives to provide funding for child care for low income workers has been reduced, forcing a change in the County's eligibility criteria for the assistance in 2016. These restrictions will continue in 2017.

The County has a long track-record of effective collaboration between our Open Lands program, municipal partners and Great Outdoors Colorado (GOCO). GOCO grants magnify the buying power of local dollars raised through the county-wide open space sales tax. These state grants totaled over \$6.0 million in 2016 and are critically important to the future success of our Open Lands program.

Fees and Charges for Services: Some County services derive significant financial support from fees and charges for services. Examples include the Parks Department, Solid Waste, Building Permits and Inspections, Motor Vehicle, Recording, Treasurer, and many components of the criminal justice system. These fees can be hard to predict but represent an important source of revenue for County services. Many of the fees are set by state statute. State legislation was passed in 2016 to slightly increase restaurant inspection fees. This additional revenue will be available beginning in 2017. In 2017, because of restrictions imposed by the State, the District Attorney's office for the 8th Judicial District will lose the ability to collect discovery fees without an offsetting reduction in workload and expenses. The impact of this change is approximately \$200,000 annually, which necessitates an increase in General Fund support of the District Attorney's office.

HIGHLIGHTS OF THE PROPOSED 2017 BUDGET – EXPENSES

Regional Transportation Funding for I-25: The Proposed 2017 budget includes a continuation of an increase of the Road and Bridge mill levy of 0.416 and an offsetting decrease in the County's General Fund mill levy. This shifting is expected to occur for a total of five years and 2017 is the second year of this program. The \$2 million raised annually by this supplemental road and bridge mill levy will be used for a local match for federal grants to I-25 between Highway 14 and Highway 402. The County and all eight of the municipalities in the County are signing an intergovernmental agreement to arrange for the amount of funds collected through the supplemental temporary County Road and Bridge mill levy to be dedicated to I-25.

Public Safety: The 2017 Proposed Budget includes substantially increased funding for public safety services in response to significant increases in crime locally which mimic national trends. In addition to the typical year-over-year budget increases experienced by most county departments and offices for operational costs and personnel compensation, the proposed budget includes \$2.19 million of new funding to expand the County's capacity for providing public safety services.

Capital Equipment Replacement Costs: The County responsibly manages capital assets through timely performance of routine maintenance and by planning for the end of needed equipment's useful life, incrementally setting aside funds for replacement. As additional assets are acquired, and more assets come under the County's central umbrella for management, additional funds are required annually for this purpose. The 2017 budget includes funds for capital replacement costs for additional capital items added to the capital equipment plan. The major items in 2017 are the Killpecker Radio Tower, the new Visitor's Center at Horsetooth Reservoir and other Natural Resources facilities and computer servers for the Sheriff's Office.

Employee Benefits Program: Health care costs have been steadily rising nationally but Larimer County was fortunate to have a generous fund balance in our self-insured medical plan to help defray these costs for employees during the last few years. In 2016 the fund balance was reduced to an appropriate level and the 2017 budget includes higher employee and employer premiums to bring plan revenues into closer balance with expenditures. This shift is necessary to protect the long-term sustainability of the medical plan. In addition, the 2017 budget includes an end to the practice of funding the administrative costs of the employee benefits plan out of the medical plan and moves these expenses, which total nearly \$500,000, into the General Fund.

Comprehensive Plan Update: In 2016, half of the cost of a county-wide Comprehensive Plan update was funded. The Community Development Division was able to secure a Community Development Block Grant to fund the first phase of this work which began in 2016. The first phase will address lands in the western, more mountainous portion of the county where natural hazards such as canyon flooding and wildfire are acute. In 2017, the second phase of the Comprehensive Plan, focusing on the eastern, more urbanized portion of the county, will be undertaken. Funding for this work is included in the 2017 budget.

Budget Impacts of Recent Natural Disasters: Larimer County is still in recovery from the High Park Fire in 2012 and the 2013 Flood. The 2016 revised and 2017 proposed budgets are still carrying approximately \$1 million in High Park Fire expenses. The 2013 Flood generates expenditures of approximately \$23.5 million in the 2016 revised and \$70.4 million in the 2017 proposed budgets. The 2017 budget includes a one-time transfer of \$6.2 million from the 2013 flood disaster account under the General Fund (Fund 105) to the Road and Bridge fund (Fund 252) in keeping with Colorado law (CRS 30-25-106(3)). This amount represents the estimated County share match of the remaining flood-related road and bridge repairs following the 2013 flood. According to statute, any additional transfers from the General Fund to Road and Bridge will need to occur before September 11, 2017. The County will continue to refine cost estimates for the repairs and make the necessary adjustments prior to the legal deadline. In order to make year to year comparisons of the County's budget, the disaster related expenditures are called out in the annual budget summaries.

SUMMARY OF 2016 ADOPTED BUDGET & PROPOSED REVISED 2016 AND 2017 PROPOSED BUDGETS

The chart below summarizes and compares the 2016 Adopted, Proposed 2016 Revised and 2017 Proposed budgets. Because disaster response and recovery costs are such a big part of the 2016 revisions and the 2017 budgets, those expenses are identified separately.

Service Categories	2015 Actual	2016 Budget	2016 Disaster Budget	2016 Revisions	2016 Revised Budget	2017 Base Budget	2017 Disaster Budget	2017 Proposed Budget
Strategic Leadership & Admin Svcs	\$28,371,232	\$31,627,960	\$0	\$6,599,460	\$38,227,420	\$32,718,865	\$139,502	\$32,858,367
Public Safety Svcs	\$68,271,717	\$71,946,243	\$0	\$3,110,879	\$75,057,122	\$77,287,654	\$358,612	\$77,646,266
Public Records & Info Svcs	\$11,685,516	\$15,859,318	\$0	\$191,315	\$16,050,633	\$17,116,777	\$0	\$17,116,777
Human & Economic Health Svcs	\$57,502,371	\$64,105,321	\$550,403	\$143,537	\$64,248,858	\$66,987,264	\$0	\$66,987,264
Community Resources, Infrastructure & Planning Svcs.	\$55,509,759	\$70,695,117	\$34,566,410	\$20,597,662	\$91,292,779	\$61,421,832	\$63,661,721	\$125,083,553
Sub-Totals								
Total Net Operating Budget	\$221,340,595	\$254,233,959		\$30,642,853	\$284,876,812	\$255,532,392		\$319,692,227
Disaster Budget	\$29,283,536		\$35,116,813	(\$11,643,757)	\$23,473,056		\$64,159,835	
Non-Operational Governmental Accounts	\$117,933,308	\$116,548,047	\$3,734,443	(\$2,047,482)	\$114,500,565	\$102,670,760	\$6,206,203	\$108,876,963
Total Gross Budget	\$368,557,439	\$409,633,262	\$38,851,256	\$16,951,614	\$422,850,433		\$70,366,038	\$428,569,190

2017 Service Proposals: The 2017 Budget includes funding for service proposals submitted by many of the County's Divisions and Elected Offices. Service proposals are a mechanism used during the budgeting process to allow the Commissioners to direct additional revenue into specific programs and projects in response to community needs and priorities. The service proposals are divided into three categories: Capacity Expansions, Strategic Plan Goals, and Service Expansions. Proposals classified as Capacity Expansions are necessary to respond to increased demand for service while maintaining the same level of service previously provided. Fifteen of these are recommended for funding at a total cost of \$2.9 million, \$2.4 million of which will be drawn from the General Fund. Service proposals associated with the Strategic Plan Goals are related directly to achieving goals and objectives outlined in the Larimer County Strategic Plan for 2013-18. Five of these proposals are recommended using General Fund revenues totaling \$150,475. Proposals categorized as Service Expansions will provide the investment needed to offer a new or enhanced level of service, often in response to changes in community needs or expectations. Six proposals of this type are recommended using General Fund revenues totaling \$353,872. The chart below summarizes the number, total cost and general fund

support of the recommended service proposals. In addition to the proposals included in the proposed 2017 budget, an additional 21 were submitted, with funding requests of \$2.9 million, of which \$2.3 million would be required from the General Fund.

Service Proposal Category	Number	Total Cost	General Fund Support
Capacity Expansion	15	\$2,925,601	\$2,441,327
Strategic Plan Goals	5	\$150,475	\$150,475
Service Expansion	6	\$603,872	\$353,872
TOTAL PROPOSED	26	\$3,679,948	\$2,945,674
Others Received	21	\$2,857,690	\$2,257,690

Several of the service proposals that are not included in the 2017 budget are seeking funding for one-time expenses that would benefit the community. However, the timing of submittal of these proposals precluded the availability of accurate estimates of the amount of funding that would be required. The 2017 budget includes \$316,989 of general fund revenue set aside in future projects fund balance from which the Commissioners can draw during the year to address these needs.

ISSUES IMPACTING FUTURE COUNTY BUDGETS

The County will be working in 2017 on updating our facilities master plan. The newest of the primary facilities central to county government operations, the Courthouse Offices, Justice Center, Loveland Police and Courts Building, were all built in the early 2000s. Our facilities that house Human Services, Public and Environmental Health and Extension, located on Blue Spruce in Fort Collins, were built in 1978 and 1985. Portions of the Larimer County Jail are more than 30 years old and the newest wing was constructed in 1999. Fleet shops used for vehicle maintenance and by Road and Bridge range in age from 27 to 63 years. Beginning construction on the replacement administrative building in Loveland will occur in 2017. Comprehensive Facilities Master Planning will enable the County to quantify needs, prioritize solutions and develop a strategy for implementation.

Larimer County provides solid waste services to all Larimer County citizens through our public landfill, transfer stations, recycling center, and household hazardous waste facilities. The landfill is estimated to have approximately 10 years of capacity remaining; then it will need to be closed and monitored according to state and federal regulations. In 2016, a regional dialogue regarding strategies for the future of solid waste in our community was initiated. Technical experts from the County Solid Waste department and three municipalities (Estes Park, Fort Collins and Loveland) have formed a Technical Advisory Committee and elected officials from the same agencies have formed a Policy Committee. These two groups are working together to identify and study options, gather public input, and identify solid waste solutions for the future of our community. All of the potential solutions will require funding which will impact future budgets for the County.

The County has been involved with our municipalities and some special districts in a study to improve processes and alignment regarding the use of tax increment financing (TIF). TIF is a financing tool that captures the increased property tax revenue of new development to fund portions of the development. Urban Renewal Authorities (URA) and Downtown Development Authorities (DDA) both have the ability to place a property tax TIF that intercepts future property tax revenues from the County and special districts for twenty-five years. Work is underway to agree on improved processes

and tools to craft and consider future TIF proposals. This could have a positive impact on the County's budget in future years.

The County's 2013-18 Strategic Plan will require additional funding to realize its goals for the community and organization. The plan was developed with input from citizens, other elected officials, multiple non-profit organizations, business leaders, and staff. It includes seven goals: Safety and Well-Being, Economic Development, Emergency Management, Transportation, Collaborate, Operations and Customer Service. The Strategic Plan is vital for moving the community forward toward a vision of a thriving, friendly place we all enjoy calling our home. The General Fund contributions toward these goals in 2017 and additional contributions in 2018 to complete the work outlined under the plan are important to the future of Larimer County. In late 2017, the process of developing a new set of goals for the next 5-year cycle will begin.

The 2016 Revised and 2017 Proposed budgets comply with County policy and Colorado statutory requirements.

Sincerely,

A handwritten signature in cursive script that reads "Linda Hoffmann".

Linda Hoffmann
County Manager